



Status Report Update
Berkeley's Financial Condition
(FY 2012 – FY 2021): Pension Liabilities
and Infrastructure Need Attention Audit

City Council
17 January 2023

OVERVIEW

- City Auditor released report on Financial Conditions: 5/2/22
 - Presentation to Budget & Finance Policy Committee: 5/12/22
 - Presentation to City Council: 5/24/22
- Audit Findings
 - Near-term indicators are generally positive
 - Long-term indicators reveal some challenges
 - Long-Term Debt and Liabilities
 - Unfunded Pension and OPEB Liabilities
 - Capital Assets
- Audit includes five recommendations
- First report on implementation status

RECOMMENDATION AND STATUS

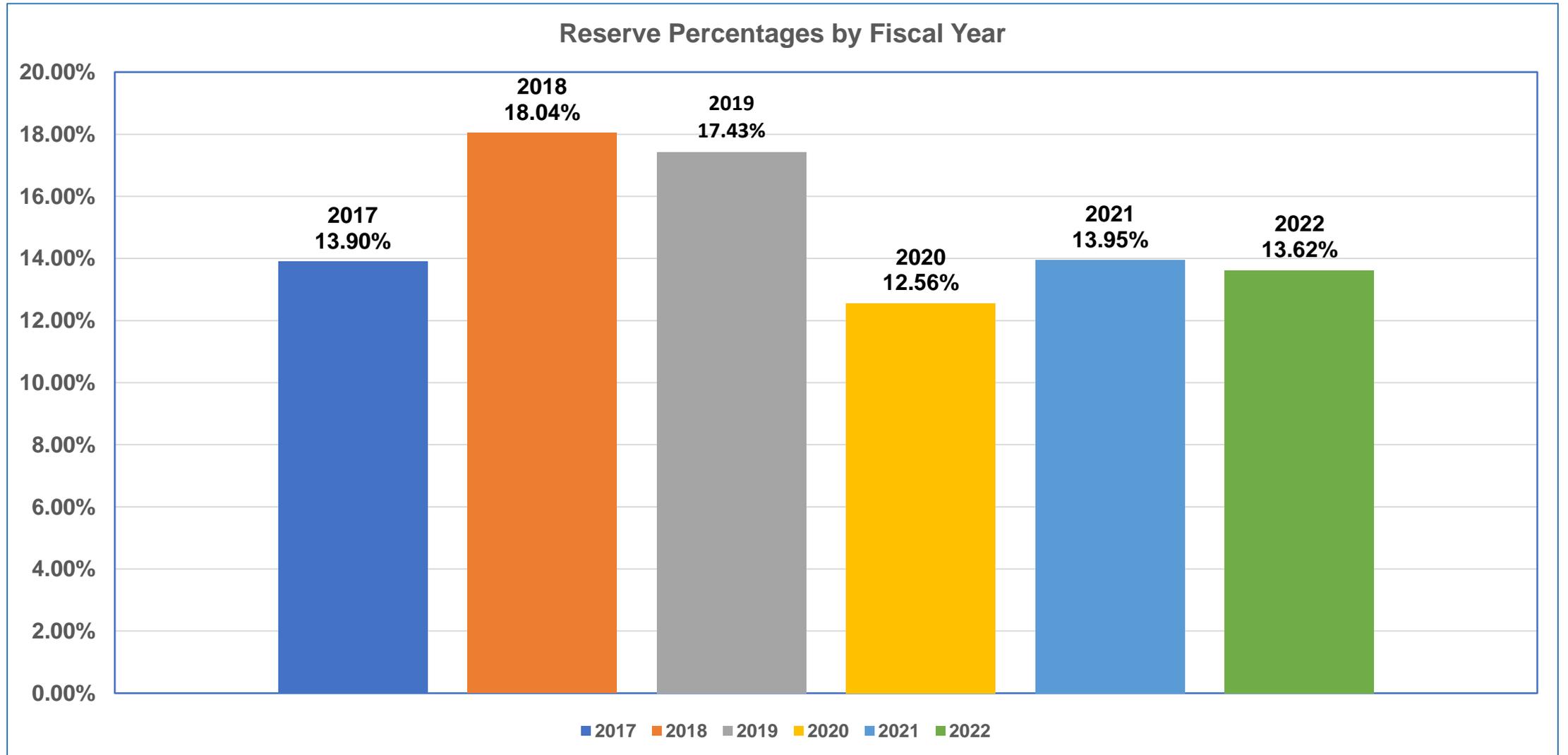
Recommendation	Complete a risk assessment and propose a plan to City Council to replenish the reserves.
Status	Started
Original Implementation Date	January 1, 2023
Revised Implementation Date	April 1, 2023
Update	<ul style="list-style-type: none">▪ Coordinating with GFOA for assistance in conducting a risk assessment and policy recommendations.▪ Council adopted fiscal policies on 6/28/22:<ul style="list-style-type: none">▪ Excess property transfer tax over baseline for reserves▪ 1/3 of investment revenue over baseline for reserves▪ Pre-funded reserves in FY 23 & 24 (~\$4.2M each FY)
Next Steps	Continue efforts to conduct risk assessment and plan to replenish revenues. Assessment and policy recommendations to Budget Committee and then Council for adoption.

GENERAL FUND RESERVE STATUS

Stability Reserve Fund	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2023	FY 2023	FY 2024
	Actual	Actual	Actual	Actual	Actual	Actual	Adopted	Revised	Actual	Adopted
Beginning Balance	0	12,421,507	14,422,922	20,022,922	20,662,922	15,599,231	19,235,236	19,235,236	19,235,236	23,097,577
Revenues	12,421,507	2,001,415	5,600,000	640,000	1,836,309	3,636,005	3,025,000	3,862,341	3,862,341	2,200,000
Expenditures	0	0	0	0	6,900,000	0	0	0	0	0
<i>Transfer to General Fund</i>	0	0	0	0	6,900,000	0	0	0	0	0
Annual Surplus/Shortfall	12,421,507	2,001,415	5,600,000	640,000	(5,063,691)	3,636,005	3,025,000	3,862,341	3,862,341	2,200,000
Ending Balance	12,421,507	14,422,922	20,022,922	20,662,922	15,599,231	19,235,236	22,260,236	23,097,577	23,097,577	25,297,577

Catastrophic Reserve Fund	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2023	FY 2023	FY 2024
	Actual	Actual	Actual	Actual	Actual	Actual	Adopted	Revised	Actual	Adopted
Beginning Balance	0	10,163,051	12,042,481	16,622,481	17,142,481	14,144,915	14,419,828	14,419,828	14,419,828	17,552,926
Revenues	10,163,051	1,879,430	4,580,000	520,000	1,502,434	2,974,913	2,475,000	3,133,098	3,133,098	1,800,000
Expenditures	0	0	0	0	4,500,000	2,700,000	0	0	0	0
<i>Transfer to General Fund</i>	0	0	0	0	4,500,000		0	0	0	0
<i>Transfer to Camps Fund</i>						2,700,000				
Annual Surplus/Shortfall	10,163,051	1,879,430	4,580,000	520,000	(2,997,566)	274,913	2,475,000	3,133,098	3,133,098	1,800,000
Ending Balance	10,163,051	12,042,481	16,622,481	17,142,481	14,144,915	14,419,828	16,894,828	17,552,926	17,552,926	19,352,926

GENERAL FUND RESERVE STATUS



RECOMMENDATION AND STATUS

Recommendation	Assess appropriate fund balance for enterprise funds, report findings to Council, and explore financial policy options.
Status	Started
Original Implementation Date	September 30, 2022
Revised Implementation Date	July 1, 2023
Update	<ul style="list-style-type: none">Formed working group with affected departments to begin research on best practices and development of policies.
Next Steps	Continue to develop policy recommendations to bring to Budget Committee and then Council for adoption.

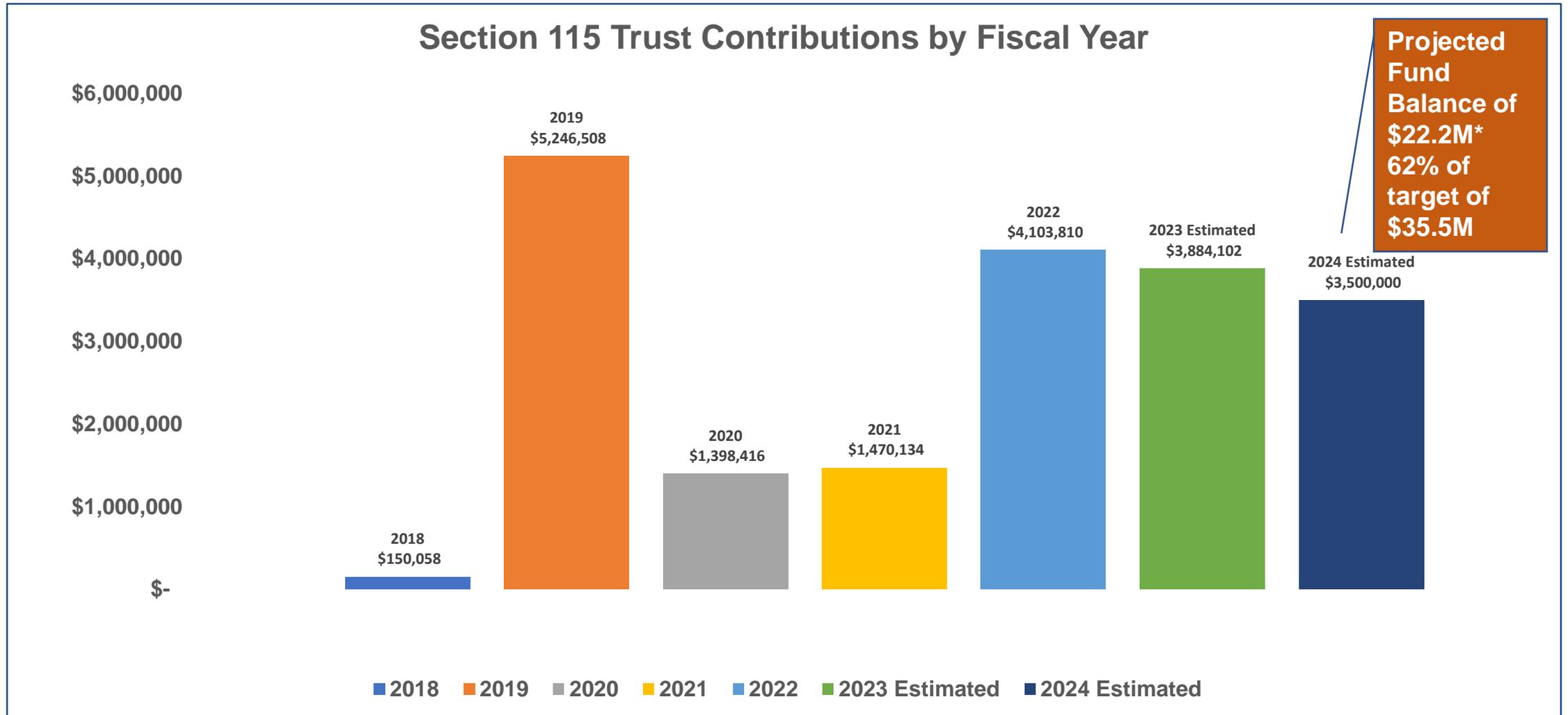
RECOMMENDATION AND STATUS

Recommendation	Update the Debt Management Policy.
Status	Started
Original Implementation Date	September 30, 2022
Revised Implementation Date	July 1, 2023
Update	<ul style="list-style-type: none">▪ GFOA review of City's debt capacity completed.▪ Finance Department to stress test the City's debt threshold utilizing all the historical data to determine capacity.
Next Steps	Finance to determine appropriate debt threshold and update policy.

RECOMMENDATION AND STATUS

Recommendation	Present a plan for adoption by the City Council to assure sufficient contributions to the Section 115 Trust.
Status	Partly implemented
Original Implementation Date	August 31, 2022
Revised Implementation Date	June 30, 2023
Update	<ul style="list-style-type: none">▪ Council adopted fiscal policies on 6/28/22:<ul style="list-style-type: none">▪ Annual savings from prepayment of CalPERS unfunded liability payment to Trust▪ 1/3 of investment revenue over baseline of \$6M for Trust▪ Estimated contribution of ~\$4.0M in FY 23 (target of up to \$5.5M) excluding potential use of FY 22 excess equity balance
Next Steps	Assess current fiscal policies in meeting objective; work with actuarial on updating pension liability and target contribution; and develop additional strategies for funding the Trust.

SECTION 115 TRUST STATUS



*Projection for 6/30/24 of \$22.M assumes no change to market conditions (Based upon Fair Market Value of trust assets as of 6/30/22 of \$14.7M.)

RECOMMENDATION AND STATUS

Recommendation	Implement a funding plan to reduce unfunded capital and deferred maintenance needs and prevent excessive deferred maintenance costs in the future.
Status	Partly implemented
Original Implementation Date	June 30, 2023
Revised Implementation Date	June 30, 2023
Update	<ul style="list-style-type: none">▪ Council adopted fiscal policies on 6/28/22 to allocate 1/3 of investment revenue over baseline for capital infrastructure plan.▪ Council adopted a fiscal policy for street maintenance allocation from the General Fund on 7/26/22.
Next Steps	Assess current fiscal policies in meeting objectives. Explore additional funding strategies. Develop plan to ensure funding and regular maintenance of City assets.

CONCLUSION

- **First report on implementation status**
 - Progress in developing new fiscal policies related to recommendations
 - Annual fiscal year allocation to pension and reserves
 - Continue work on assessment and updating policies and targets
 - Continue commitment to annual contribution to grow trust and reserve balance
 - Continue to explore funding strategies and feasibility
 - Next report in June 2023
- **Questions and Discussion**